

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Montague Fire District	County Muskegon
Fiscal Year End 06/30/2006	Opinion Date 09/01/2006	Date Audit Report Submitted to State 12/22/06	

We affirm that:

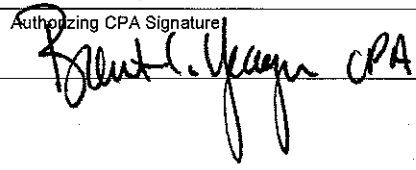
We are certified public accountants licensed to practice in Michigan

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below (See instructions for further detail)
- 1 ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - 2 ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures
 - 3 ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - 4 ☒ ☐ The local unit has adopted a budget for all required funds
 - 5 ☒ ☐ A public hearing on the budget was held in accordance with State statute
 - 6 ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division
 - 7 ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - 8 ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - 9 ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin)
 - 10 ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover
 - 11 ☒ ☐ The local unit is free of repeated comments from previous years
 - 12 ☒ ☐ The audit opinion is UNQUALIFIED.
 - 13 ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP)
 - 14 ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute
 - 15 ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	N/A - None	
Other (Describe)	<input type="checkbox"/>	N/A - None	
Certified Public Accountant (Firm Name) Pridnia LaPres, PLLC		Telephone Number 231-739-9441	
Street Address 3145 Henry Street, Ste. 200		City Muskegon	State MI
Zip 49441		License Number 1101021594	
Authorizing CPA Signature 		Printed Name Brent C. Yeager, CPA	

Montague Fire District



Financial Statements and Required Supplemental Information

**For the Period from June 20, 2006
to June 30, 2006**

Montague Fire District

Contents

Independent Auditors' Report	3
Management Discussion and Analysis	4-6
Financial Statements	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10-14

Independent Auditors' Report

To the Board of Trustees
Montague Fire District
Montague, Michigan

We have audited the financial statements of the Montague Fire District as of June 30, 2006 and for the period from June 20, 2006 to June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Montague Fire District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montague Fire District as of June 30, 2006 and the results of its operations and its cash flows for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Pridnia LaPres, PLLC

September 1, 2006

Montague Fire District

Management's Discussion and Analysis

This section of the Montague Fire District's ("District") annual financial report presents our discussion and analysis of the District's financial performance during the period ended June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Montague Fire District financially as a whole. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)

(Required Supplemental Information)

Basic Financial Statements

Financial Statements

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to the Basic Financial Statements

The Statement of Net Assets provides balance as of the end of the reporting period. The Statement of Revenues, Expenses, and Changes in Net Assets provides information related to the activities of the Authority during the period. The Statement of Cash Flows presents detailed information about the Authority's cash collection and disbursement.

Financial Overview

Recall that the Statement of Net Assets provides the perspective of the District as a whole. The following table provides District's net assets as of June 30, 2006:

Statement of Net Assets

Assets

Current and other assets	\$ 267,525
Capital assets	445,733
Total assets	713,258

Liabilities

Current liabilities	28,668
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Net Assets

Invested in capital assets - net of related debt	445,733
Reserved	143,533
Unrestricted	95,324
Total net assets	\$ 684,590

Montague Fire District

Management's Discussion and Analysis

The above analysis focuses on the net assets. The District's net assets were \$684,590 at June 30, 2006. Net assets invested in capital assets, net of related debt totaled \$445,733. Of the remaining amount of net assets, \$143,533 was reserved for replacement and \$95,324 was unreserved.

The \$95,324 in unreserved net assets of governmental activities represents the accumulated results of the past years' operations. The unrestricted net asset balance is used to provide working capital and cash flow requirements as well as providing for future uncertainties.

The results of this period's operations for the District are reported in the Statement of Activities, which shows the changes in net assets for the period ended June 30, 2006.

Statement of Net Assets

Non-Operating Revenue

<u>Contributions from other governmental units</u>	<u>\$ 684,590</u>
Change in Net Assets	684,590
<u>Net Assets, beginning of period</u>	<u>-</u>
<u>Net Assets, end of period</u>	<u>\$ 684,590</u>

Capital Assets

At June 30, 2006, the District had \$445,733 (after accumulated depreciation) invested in capital assets, including building improvements and fire equipment.

<u>Capital Assets</u>	
Buildings	\$ 4,297
Equipment	568,940
	<u>573,237</u>
<u>Less accumulated depreciation</u>	<u>127,504</u>
<u>Capital Assets, net</u>	<u>\$ 445,733</u>

Economic Factors

As of June 20, 2006, the Montague Fire District became its own separate entity, filing Articles of Incorporation pursuant to the provisions of Act 57, Public Acts of Michigan, 1988 as amended. As such, the Montague Fire District is now considered an Authority and is responsible for handling their own funds. Changes need to be made to in the way business is handled. Most of these changes are spelled out in the Articles of Incorporation that have been approved by all three organizing units of government.

Contacting the District Financial Management

This financial report is designed to provide a general overview of the District's finances for all those interested in the Authority. If you have any questions about this report or need additional information, contact the Montague Fire District at 8778 Ferry St., Montague, MI 49437.

Montague Fire District

Statement of Net Assets

June 30, 2006

Assets

Current Assets

Cash and cash equivalents (Note 2)	\$ 264,058
Prepaid items	3,467

Total Current Assets 267,525

Non-Current Assets

Capital assets	
Buildings	4,297
Equipment	568,940
Less accumulated depreciation	(127,504)

Net Capital Assets 445,733

Total Assets 713,258

Liabilities and Net Assets

Liabilities

Accounts payable	989
Accrued liabilities	27,679

Total Liabilities 28,668

Net Assets

Invested in capital assets	445,733
Reserved for	
Replacement	143,533
Unreserved	95,324

Total Net Assets \$ 684,590

See accompanying notes to financial statements.

Montague Fire District

Statement of Revenues, Expenses, and Changes in Net Assets

Period ended June 30, 2006

Non-Operating Revenue

Contributions from other governmental units	\$ 684,590
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Change in Net Assets	684,590
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Net Assets – Beginning of period	-
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Net Assets – End of year	\$ 684,590
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See accompanying notes to financial statements.

Montague Fire District

Statement of Cash Flows

Period ended June 30, 2006

Cash Flows from Capital and Related Financing Activities	
Contributions from other governmental units	\$ 264,058
Net Increase in Cash and Cash Investments	264,058
Cash and Cash Equivalents, Beginning of period	-
Cash and Cash Equivalents, End of year	\$ 264,058

See accompanying notes to financial statements.

Montague Fire District

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the Montague Fire District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance. The more significant of the District's accounting policies are described below.

Reporting Entity

The Montague Fire District was incorporated on June 20, 2006, pursuant to the provisions of Act 57, Public Acts of Michigan, as amended, for the purpose of the creating, establishing and incorporating an emergency services authority for citizens of its constituent municipalities: the City of Montague, the Townships of Montague and White River.

Each of the municipalities participating in the District share the cost of operating and financing it. Operating and administrative cost shares are allocated to the municipalities in proportion to their respective populations. In addition, operating costs of the District are partially funded by user fees.

Basis of Accounting

Financial activities of the District are accounted for using the accrual basis of accounting.

Montague Fire District

Notes to Financial Statements

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Under this Standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The Standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

The District has not adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the District to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Capital Assets

Capital Assets, which include plant and equipment are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Montague Fire District

Notes to Financial Statements

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Equipment	5-20

2. Deposits and Investments

Deposits

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The District does not have a deposit policy for custodial credit risk. At June 30, 2006, the bank balance of the District's deposits is \$268,424, of which \$100,000 is covered by federal depository insurance, \$168,424 is uninsured and uncollateralized.

Investments

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

Montague Fire District

Notes to Financial Statements

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Credit Risk

State statutes authorize the District to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments. The District does not have an investment policy that further limits its investment choices.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, being depreciated				
Buildings	\$ -	\$ 4,297	\$ -	\$ 4,297
Equipment	-	568,940	-	568,940
Total capital assets, being depreciated	-	573,237	-	573,237
Less accumulated depreciation for				
Buildings	-	2,793	-	2,793
Equipment	-	124,711	-	124,711
Total accumulated depreciated	-	127,504	-	127,504
Capital Assets, Net	\$ -	\$ 445,733	\$ -	\$ 445,733

Montague Fire District

Notes to Financial Statements

- 4. Related Party Transactions** The District will pay an administrative fee to the City of Montague, a participating governmental unit, for allocated City employee wages and fringe benefits.
- 5. Risk Management** The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance coverage in the current year.